Q14

In the light of Satyam Scandal (2009), discuss the changes brought in the corporate governance to ensure transparency and accountability.

UPSC Civil Services Mains 2015 · GS II · 12 marks · Transparency and e-Governance

Important aspects of governance, transparency and accountability, e-governance - applications, models, successes, limitations, and potential; citizens charters, transparency and accountability and institutional and other measures.

Core demand of the question

- In the light of Satyam Scandal (2009), discuss the changes brought in the corporate governance to ensure transparency and accountability

Revision summary

Satyam (2009) was a promoter and audit failure in a large listed IT firm.

The Companies Act, 2013 wrote director duties, independent directors, related-party rules and class action.

Auditor rotation and NFRA targeted the audit gap that Satyam exposed.

SEBI strengthened listing conditions on audit committees, certification and whistle-blowing.

Statute improved transparency; enforcement and truly independent boards remain the test.

Introduction

In January 2009 the chairman of Satyam Computer Services admitted that the company's accounts had been inflated for years. Independent directors, auditors and the market had not caught the fraud in time. The scandal was India's Enron moment. It pushed SEBI, the Ministry of Corporate Affairs and, later, Parliament to tighten board independence, audit, disclosure and related-party rules. The Companies Act, 2013 is the main statutory answer. Law on paper is not the same as honest books, but the architecture of transparency did change.

Body

What Satyam showed

- Promoter-driven companies can capture the board. Independent directors who do not probe related-party deals and cash balances are decoration.
- Statutory auditors who rely on management confirmations, and a weak audit committee, can miss fictitious cash and revenue.
- Rating agencies, analysts and a booming IT story created herd confidence. Market discipline failed until confession.
- **Government had to step in:** a new board was installed, and the company was later merged through a regulated sale, which showed that corporate failure is also a public-interest event.

Statutory and board changes

- The Companies Act, 2013 replaced the 1956 Act's thin governance code with defined duties of directors (section 166), including to act in good faith for the company and to avoid conflict.
- Listed and large companies must have independent directors, with a code and a databank. Related-party transactions need audit-committee and, in specified cases, shareholder approval, with interested parties recused.
- Woman director and, for listed companies, a more precise mix of executive and independent directors, were meant to widen the board's eyes.
- Mandatory CSR spending for qualifying companies (section 135) was a social-accountability add-on, not a direct Satyam fix, but part of the same 2013 ethics turn.
- Serious Fraud Investigation Office received a statutory basis. Class-action suits (section 245) gave shareholders a collective tool.

Audit, accounts and markets

- Rotation of auditors and a cap on non-audit services were written in to reduce auditor capture of the kind alleged around Satyam.
- The National Financial Reporting Authority (NFRA) was provided for in the 2013 Act to oversee auditors of listed and large companies, moving beyond a purely peer self-regulator.
- SEBI tightened Clause 49 of the Listing Agreement after Satyam (audit committee, whistle-blower policy, CEO/CFO certification of financials) and later folded many of those rules into the Listing Obligations and Disclosure Regulations.
- Disclosure of promoter pledges, stricter related-party reporting, and electronic voting were meant to give minority shareholders a voice.
- The Serious Fraud cases and SEBI's insider-trading and disclosure regime raised the personal cost of cooking books, at least in law.

Limits that remain

- Independent directors still often arrive through promoter networks. Tenure, information and the fear of vicarious liability can make them passive or absent.
- Audit rotation does not guarantee scepticism if the profession's incentives stay with the client.
- Satyam was caught by a confession, not by the then-existing checks. New law must be tested by the next complex fraud, including at the group and offshore-entity layer.

Flow diagram

Satyam 2009 false accounts -> Companies Act 2013

Satyam 2009 false accounts -> SEBI Clause 49 to LODR

Companies Act 2013 -> Independent directors RPT duties

Companies Act 2013 -> Auditor rotation NFRA SFIO

SEBI Clause 49 to LODR -> CEO CFO certify disclosures

Independent directors RPT duties -> Transparency if enforced

Auditor rotation NFRA SFIO -> Transparency if enforced

Conclusion

Satyam showed that promoter power, sleepy independent directors and captured audit can destroy a listed company and hurt employees, clients and markets. Corporate governance after 2009 moved toward the Companies Act, 2013, SEBI board and audit rules, auditor rotation, NFRA, related-party controls and fraud investigation. Transparency and accountability are stronger on statute. They work only if boards actually read the cash, auditors resist the client, and regulators use the new teeth.

Facts & figures

Satyam confession, January 2009

Ramalinga Raju admitted inflated cash and revenue; the government reconstituted the board and oversaw a sale to a buyer consortium.

Companies Act, 2013

Replaced the 1956 Act's core company law; independent directors, RPT rules, CSR, SFIO and class action sit in this statute.

NFRA

National Financial Reporting Authority, provided in the 2013 Act, to regulate auditors of listed and specified companies.

SEBI Clause 49

Listing-agreement corporate-governance clause tightened after Satyam; later largely recast as SEBI LODR Regulations, 2015.

Auditor rotation

The 2013 Act requires periodic rotation of statutory auditors for listed and certain other companies to reduce long client capture.